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SUBJECT: ALBAPETROLEOS STRATEGY: FAIR PRICES OR DESTROYING
COMPETITION?

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SUMMARY

11. (SBU) During an October 2 courtesy call by Econoff, Albapetroleo Vice President Luz Estrella Rodriguez said her company's primary goal is to increase the availability of affordable gasoline to the public and create a social development fund for municipalities participating in the Albapetroleo joint venture with PDVSA. Econoff toured the construction site of Albapetroleo's 350,000 barrel-capacity fuel depot, set to open in 2010, and spoke with senior executives who detailed Albapetroleo's ongoing plan to expand market share for diesel fuel in El Salvador through highly-subsidized pricing, viewed by other market actors as predatory.

MARKET STRATEGY: FAIR PRICES AND SOCIAL DEVELOPMENT

12. (SBU) Albapetroleo Vice President Luz Estrella Rodriguez told Econoff October 2 that Albapetroleo is focusing on increasing its share of the Salvadoran diesel market from its current 28 percent to 40 percent over the next few years. Overall, according to Rodriguez, Albapetroleo currently holds 13 percent of the entire fuel market, and has expanded from six service stations nationwide in 2006 to 40 stations today. A key part of their expansion plans is a new 350,000 barrel capacity oil depot that is expected to be completed in June 2010.

13. (SBU) Rodriguez is one of 20 FMLN mayors that make up the Inter-municipal Energy Association for El Salvador (ENEPASA), which forms one half of the Albapetroleo joint-venture with a subsidiary of Venezuela's state-owned oil company PDVSA (reftel). Rodriguez said ENEPASA's primary goal is to increase the availability of affordable gasoline to the public and to devote a percentage of Albapetroleo's profits to a social development fund to benefit local communities. Under the joint-venture agreement with PDVSA, three percent of all profits made under the venture are directed toward social development projects in the municipalities of ENEPASA members.

NEW OIL DEPOT: A LONG-TERM BEACHHEAD

14. (SBU) Rodriguez and Albapetroleo Project Manager Nestor Arria gave Econoff a tour of the oil depot in Acajulta. When completed in 2010, the facility will house two 100,000 barrel diesel storage tanks, two 50,000 barrel regular gasoline tanks, two 20,000 premium gasoline barrel tanks, two 2,000 barrel jet fuel tanks and one 5,000

barrel liquid propane gas (LPG) tank. Four dedicated pipelines will be placed underwater near the Port of Acajutla to allow the facility to offload fuel from oil tankers offshore. According to Rodriguez, Albapetroleos invested approximately \$100 million dollars in the construction of the facility, but they expect to recover this investment within 8 years. Rodriguez said the oil depot will eliminate their current supply chain problems caused by having to truck in fuel from Nicaragua. Rodriguez also pointed out a \$320,000 water treatment plant for the neighboring community provided by the social development fund.

OIL COMPANIES CRY FOUL

15. (SBU) The Salvadoran Association of Oil Companies (ASAPETROL), which includes Chevron, Exxon Mobil, Shell, and Puma Energy recently briefed Econoffs on their concerns about Albapetroleo. ASAPETROL members contend Albapetroleo engages in predatory pricing by selling their oil substantially under market prices. Salvador Rivas, ASAPETROL President, said Albapetroleo is able to maintain low prices and undercut their competition primarily through cheap financing provided by the Venezuelan government, which provides 25-year low-cost financing on 40 percent of Albapetroleo oil purchases. When asked about predatory pricing, Albapetroleo Vice President Rodriguez maintained the company currently sells wholesale fuel to service stations at .17 cents per gallon above cost.

16. (SBU) When asked whether ASAPETROL has presented an anti-dumping case to the Salvadoran Superintendent of Competition, Rivas replied that ASAPETROL executives explored this option during the Saca Administration, but were told the GOES would not bring a case

forward before an election that might imply the ARENA party is interested in keeping cheap oil off the market. They said bringing this case forward now with the FMLN in government would be a waste of time. Rivas mentioned that many of the foreign oil companies are re-evaluating doing business in El Salvador and, in fact, Shell is currently in the process of selling its assets. Besides the concern about being further undercut by Albapetroleo, Rivas said GOES use of non-binding reference pricing as a regulatory tool is squeezing already tight profit margins and making the market in El Salvador less desirable.

COMMENT

17. (SBU) In addition to predatory pricing, Albapetroleo is a source for surreptitious funds channeled to the FMLN. As such, Albapetroleo represents an expansion of Venezuelan influence that is polarizing for El Salvador. That Albapetroleo opened its doors to the Embassy was a play for respectability, even ensuring that Econoff's visit was broadcast on network TV news.

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